

Western Townships Utilities Authority

Financial Report
with Supplemental Information
September 30, 2008

Western Townships Utilities Authority

Contents

Report Letter	I
Management's Discussion and Analysis	2-6
Basic Financial Statements	
Statement of Net Assets	7
Statement of Revenue, Expenses, and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to Financial Statements	10-20
Supplemental Information	21
Schedule of Operating Expenditures - Budget and Actual	22
Schedule of Indebtedness	23-24

Independent Auditor's Report

To the Commissioners
Western Townships Utilities Authority

We have audited the accompanying basic financial statements of Western Townships Utilities Authority (the "Authority") as of September 30, 2008 and 2007 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of Western Townships Utilities Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2008 and 2007 and the changes in financial position, including cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Authority. We did not examine this data and, accordingly, do not express an opinion thereon.

The accompanying supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The supplemental information is presented for the purpose of additional analysis. Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

December 18, 2008

Western Townships Utilities Authority

Management's Discussion and Analysis

Using this Annual Report

Western Townships Utilities Authority (WTUA or the "Authority") is a joint venture of three townships located in western Wayne County: Canton, Northville, and Plymouth Townships. The primary role of the Authority is to operate a sewage transportation system for these communities. This annual report consists of a series of financial statements, footnotes, and supplemental information. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the Authority. This is followed by the statement of cash flows, which presents detailed information about the changes in the Authority's cash position during the year. The next section includes the notes to the financial statements, which disclose the Authority's significant accounting policies and additional information related to certain amounts included on the statement of net assets. The final component of the annual report is the supplemental information, which is provided for the purpose of additional analysis.

Financial Overview

In analyzing the Authority's financial position, it is important to recognize the mission of the Authority. All debt of the Authority is backed by the full faith and credit of its three member townships. From a financial perspective, the Authority's core objective is to manage the long-term costs of sewage disposal for its three member townships. In essence, the Authority acts as a conduit for its three members. The amounts to be charged to its members will, by definition, be equal to the Authority's costs of providing sewage transportation and treatment. The key financial statistics for the Authority, therefore, relate to measurements of the ability to reduce total costs to its members (as opposed to the ability to accumulate financial resources).

	2004	2005	2006	2007	2008
Total costs charged to townships:					
Operating expenses - Net of					
unrestricted interest earnings	\$ 10,840,820	\$ 10,144,959	\$ 10,071,697	\$ 11,756,702	\$ 11,769,037
Total flow (thousands of gallons)*	5,478,451	5,476,001	5,737,867	5,855,172	5,854,103
Cost per thousand gallons	\$ 1.979	\$ 1.853	\$ 1.755	\$ 2.008	\$ 2.010

* For the purpose of this calculation, flow volumes are measured as the metered quantity of sewage transported to both treatment facilities.

Western Townships Utilities Authority

Management's Discussion and Analysis (Continued)

WTUA currently transports the sewage to two treatment plants, the Ypsilanti Community Utilities Authority (YCUA) and the City of Detroit through the Wayne County/RVIS system. YCUA bills the Authority based upon actual sewage flow. A lookback is calculated by YCUA at the end of its fiscal year and charged or credited to the Authority based upon its share of the sewage flow. Payments are made to Wayne County for sewage that is treated by the City of Detroit as Wayne County maintains the RVIS sewage transportation system. The Wayne County bill is based upon a percentage of the water purchased by the Authority's townships from Detroit, adjusted for water-only and sewer-only customers. A quarterly bill is also paid to Wayne County that covers fixed and excess flow charges. Wayne County pays the City of Detroit for actual sewage flow. The City of Detroit also calculates a lookback at the end of its fiscal year, which is charged back or credited to the County, which is then allocated to the communities in the quarterly charges.

Condensed Financial Information

The following table presents condensed information about the Authority's financial position compared to the prior two years. The increase in net assets is mainly due to the Lower Rouge expansion that started during the year. Costs for this project are being paid for by Canton Township. Canton Township issued bonds to pay for this project. As discussed above, the Authority charges its members only as cash or working capital is required.

TABLE I	September 30			Change (2007 to 2008)	
	2006	2007	2008	Amount	Percent
Assets					
Current assets	\$ 2,939,564	\$ 2,890,046	\$ 6,270,134	\$ 3,380,088	117.0
Restricted assets	2,997,556	940,911	1,632,500	691,589	73.5
Capital assets	<u>149,436,387</u>	<u>148,358,789</u>	<u>155,006,231</u>	<u>6,647,442</u>	4.5
Total assets	155,373,507	152,189,746	162,908,865	10,719,119	7.0
Liabilities					
Current liabilities	2,735,564	2,686,046	6,066,134	3,380,088	125.8
Other liabilities	2,093,802	207,611	928,457	720,846	347.2
Long-term liabilities	<u>112,961,740</u>	<u>107,782,065</u>	<u>102,602,390</u>	<u>(5,179,675)</u>	(4.8)
Total liabilities	<u>117,791,106</u>	<u>110,675,722</u>	<u>109,596,981</u>	<u>(1,078,741)</u>	(1.0)
Net Assets					
Invested in capital assets - Net of debt	36,459,647	40,576,724	52,403,842	11,827,118	29.1
Restricted	918,754	733,300	704,042	(29,258)	(4.0)
Unrestricted	<u>204,000</u>	<u>204,000</u>	<u>204,000</u>	-	-
Total net assets	<u>\$37,582,401</u>	<u>\$41,514,024</u>	<u>\$53,311,884</u>	<u>\$11,797,860</u>	28.4

Western Townships Utilities Authority

Management's Discussion and Analysis (Continued)

The following table presents condensed information about the Authority's revenues and expenses compared to the prior years:

TABLE 2	Year Ended September 30			Change (2007 to 2008)	
	2006	2007	2008	Amount	Percent
Earned revenue from townships	\$ 10,071,697	\$ 11,756,702	\$ 11,769,037	\$ 12,335	0.1
Interest on operating cash and other revenue	43,930	54,843	35,003	(19,840)	(36.2)
Total revenue	10,115,627	11,811,545	11,804,040	(7,505)	(0.1)
Sewage treatment charges	7,344,926	8,918,445	8,969,957	51,512	0.6
Operation and maintenance	1,242,678	1,434,018	1,545,658	111,640	7.8
Administrative and other	486,108	463,371	507,753	44,382	9.6
Sewage capacity rental	1,041,915	995,711	780,672	(215,039)	(21.6)
Total operating expenses	10,115,627	11,811,545	11,804,040	(7,505)	(0.1)
Other nonoperating income	3,138,117	517,011	622,267	105,256	20.4
Net income - Before capital contributions	3,138,117	517,011	622,267	105,256	20.4
Contributions from townships	3,490,960	3,414,612	11,175,593	7,760,981	227.3
Change in net assets	<u>\$ 6,629,077</u>	<u>\$ 3,931,623</u>	<u>\$ 11,797,860</u>	<u>\$ 7,866,237</u>	200.1

Overall, there was not much change in the total cost for sewage treatment charges, although there were changes in the rates. The overall total volume of sewage flow decreased by less than 1 percent. Rates for YCUA increased 4.05 percent before the lookback component and rates for Wayne County increased 6.3 percent. Overall, the volume billing for YCUA increased 3.04 percent and Wayne County decreased 0.56 percent during the current fiscal year. Operations and maintenance costs were up partially due to an increase in electrical costs and chemical costs. The other item increasing operations and maintenance cost was related to the purchase and maintenance of additional flow meters in the collection system. Administrative costs were up mainly due to the ongoing arbitration with YCUA. The sewage capacity rental decreased as the last payment on the temporary lease of 1.7 MGD of capacity from YCUA was made in the previous fiscal year. This lease is no longer needed with the completion of the YCUA expansion giving WTUA an additional 17 MGD of capacity.

Budgetary Highlights

During the year, the Authority made no amendments to its budget. Costs came in at 90.1 percent of the budget.

Western Townships Utilities Authority

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

During the current year, the Authority managed the following capital improvement projects:

Lower Rouge equalization basin expansion	\$ 11,067,568
Middle Rouge screw pump replacement	52,975
Air release valves - Force Main	43,950
YCUA expansion	32,744
Other	<u>19,100</u>
Total capital project additions	<u>\$ 11,216,337</u>

The Lower Rouge equalization basin expansion project will increase the storage capacity at the Lower Rouge facility by 5.5 mg as well as installing three new pumps. Construction started in early 2008 and final completion is expected in mid 2010. The Middle Rouge screw pump replacement project is to replace the remaining two screw pumps. Four pumps have already been replaced. Bids have been received on the project. It is anticipated that construction will begin in January 2009 with completion by August 2009.

The YCUA wastewater treatment plant expansion is complete and was put in operation during 2006. The project has remained open until the resolution of YCUA's lawsuit concerning the odor control equipment.

As a result, the Authority's total investment in capital assets increased to over \$188 million (before considering depreciation).

Economic Factors and Next Year's Budgets and Rates

The original goal when WTUA was organized was to be able to sell its capacity in the Wayne County/Detroit system once the expansion at YCUA was completed. Due to the growth in Canton Township being greater than previously planned, the Township of Canton will retain its capacity in the Wayne County/Detroit sewage treatment system despite the completion of the current YCUA expansion. Northville Township and Plymouth Township have also decided to keep part of their capacity in the Wayne County RVIS system. Construction started in 2008 for additional storage capacity for the Lower Rouge facility. Current estimated cost for this expansion is approximately \$29 million. The costs for the equalization basin will be paid by Canton Township, which has bonded funds to pay for this expansion.

Sewage treatment charges represent approximately 76 percent of the Authority's operating budget for the next fiscal year. The Authority's operating budget for the year ending September 30, 2009 forecasts a moderate increase in sewage flow volume and rates.

Western Townships Utilities Authority

Management's Discussion and Analysis (Continued)

Contacting the Authority's Management

This financial report is intended to provide our member townships and WTUA bondholders with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives from the member townships. If you have questions about this report or need additional information, we welcome you to contact the director of operations.

Western Townships Utilities Authority

Statement of Net Assets

	September 30	
	2008	2007
Assets		
Current assets:		
Cash (Note 4)	\$ 264,730	\$ 146,380
Accounts receivable:		
Due from members	4,204,316	1,278,125
Due from other governmental entities	387,294	-
Other	39,515	92
Billing lookback - Due from members (Note 6)	-	92,157
Unbilled receivable:		
Debt service	1,250,967	1,322,217
Capital improvement	12,653	24,065
Prepaid expenses	110,659	27,010
Total current assets	6,270,134	2,890,046
Noncurrent assets - Restricted:		
Cash and investments (Note 4)	1,632,353	940,261
Accrued interest receivable	147	650
Capital assets - Net (Note 5):		
Nondepreciable	14,714,366	3,551,084
Depreciable	140,291,865	144,807,705
Total noncurrent assets	156,638,731	149,299,700
Total assets	162,908,865	152,189,746
Liabilities		
Current liabilities:		
Accounts payable	1,233,684	1,236,158
Accrued payables - Payroll and compensated absences	20,754	14,091
Construction and retainers payable	2,937,092	113,580
Billing lookback - Due to members (Note 6)	623,637	-
Accrued interest payable	1,250,967	1,322,217
Total current liabilities	6,066,134	2,686,046
Noncurrent liabilities:		
Current liabilities payable from restricted assets:		
Construction retainers payable	928,326	191,290
Construction contracts payable	131	16,321
Long-term debt - Due within one year and due in more than one year (Note 7)	102,602,390	107,782,065
Total noncurrent liabilities	103,530,847	107,989,676
Total liabilities	109,596,981	110,675,722
Net Assets		
Invested in capital assets - Net of related debt	52,403,842	40,576,724
Restricted for capital purposes	704,042	733,300
Unrestricted	204,000	204,000
Total net assets	\$ 53,311,884	\$ 41,514,024

Western Townships Utilities Authority

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended September 30	
	2008	2007
Operating Revenue		
Earned revenue from townships	\$ 11,769,037	\$ 11,756,702
Interest earned on operating cash and other revenue	35,003	54,843
Total operating revenue	11,804,040	11,811,545
Operating Expenses		
Sewage treatment charges	8,969,957	8,918,445
Operation and maintenance	1,545,658	1,434,018
Administrative and other	507,753	463,371
Sewage capacity rental	780,672	995,711
Total operating expenses	11,804,040	11,811,545
Operating Income	-	-
Nonoperating Revenue (Expenses)		
Interest earnings on restricted assets	3,487	12,906
Disposal of assets	(6,318)	-
Debt billings to townships	10,575,125	10,856,375
Interest expense	(5,075,125)	(5,356,375)
Depreciation	(4,554,577)	(4,675,570)
Amortization	(320,325)	(320,325)
Total nonoperating revenue	622,267	517,011
Net Income - Before capital contributions	622,267	517,011
Capital Contributions from Townships	11,175,593	3,414,612
Increase in Net Assets	11,797,860	3,931,623
Net Assets - Beginning of year	41,514,024	37,582,401
Net Assets - End of year	\$ 53,311,884	\$ 41,514,024

Western Townships Utilities Authority

Statement of Cash Flows

	Year Ended September 30	
	2008	2007
Cash Flows from Operating Activities		
Cash received from townships	\$ 12,301,291	\$ 11,584,766
Cash payments to suppliers for goods and services	(12,040,537)	(11,277,152)
Cash payments for employee services	(269,680)	(265,199)
Net cash (used in) provided by operating activities	(8,926)	42,415
Cash Flows from Capital and Related Financing Activities		
Collection of debt billings to townships	10,646,375	10,923,875
Principal and interest paid on long-term debt	(10,646,375)	(10,923,875)
Capital contributions from members	8,444,354	3,566,722
Payments for the acquisition or construction of capital assets	(7,671,979)	(5,721,311)
Proceeds from sale of assets	8,000	-
Net cash provided by (used in) capital and related financing activities	780,375	(2,154,589)
Cash Flows from Investing Activities - Interest received on investments	38,993	69,809
Net Increase (Decrease) in Cash and Cash Equivalents	810,442	(2,042,365)
Cash and Cash Equivalents - Beginning of year	1,086,641	3,129,006
Cash and Cash Equivalents - End of year	<u>\$ 1,897,083</u>	<u>\$ 1,086,641</u>
Balance Sheet Classification of Cash and Cash Equivalents		
Unrestricted cash	\$ 264,730	\$ 146,380
Restricted cash and investments	1,632,353	940,261
Total cash and cash equivalents	<u>\$ 1,897,083</u>	<u>\$ 1,086,641</u>
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ -	\$ -
Less interest and other income included in operating revenue	(35,003)	(54,843)
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:		
Increase in due from members - Monthly billings	(180,244)	(67,445)
(Increase) decrease in accounts receivable - Non-members	(426,717)	119
(Increase) decrease in prepaid expenses	(83,649)	6,127
Decrease (increase) in due from members - Billing lookback	96,861	(96,861)
(Decrease) increase in accounts payable	(2,474)	258,638
Increase in accrued payroll	6,663	4,310
Increase (decrease) in due to members - Billing lookback	615,637	(7,630)
Net cash (used in) provided by operating activities	<u>\$ (8,926)</u>	<u>\$ 42,415</u>

There were no noncash transactions during the years ended September 30, 2008 and 2007.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2008 and 2007

Note 1 - Nature of Entity

Western Townships Utilities Authority (the "Authority" or WTUA) is a joint venture of the Charter Townships of Canton, Northville, and Plymouth and was created pursuant to Act 233, Michigan Public Acts of 1955. Its allowed purpose is to acquire and operate a sewage disposal system, a solid waste management system, and/or a water supply system. The Authority currently operates a sewage transportation system for these communities.

The Internal Revenue Service has ruled that the Authority is a political subdivision of the State of Michigan and, as a result, is exempt from federal income tax.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity - The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. In accordance with these guidelines, there are no component units to be included in these financial statements.

Basis of Accounting - The accrual basis of accounting is used by the Authority. The Authority follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The Authority has elected not to follow private sector standards issued after November 30, 1989.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Operating Revenue - Operating revenue represents billings to member townships based on the Authority's operating expenses. Therefore, the Authority has shown depreciation expense as a nonoperating expense for the purpose of the statement of revenue, expenses, and changes in net assets.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2008 and 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash Equivalents - For the purpose of the statement of cash flows, all highly liquid investments with original maturities of three months or less are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

Investments - Investments are recorded at fair value, based on quoted market prices.

Due from Members - Due from members represents amounts that will be collected from the three townships to pay for the Authority's operational and administrative costs and for reimbursement of capital-related costs.

Unbilled Receivable - Unbilled receivable represents amounts that have not been billed to the townships for debt service and capital projects as of the end of the year. The Authority has accrued interest payable in an amount equal to the unbilled receivable for debt service.

Restricted Assets - The Authority has unspent bond proceeds relating to the YCUA expansion and, as such, these amounts have been classified as restricted assets. When an expense is incurred that allows the use of restricted assets, those assets are applied before utilizing any unrestricted assets. The board has also set aside cash for emergency replacement of critical assets. These also are classified as restricted assets.

Capital Assets - Generally, purchases for capital outlay exceeding \$5,000 are capitalized. All capital assets are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation on such capital assets is charged as an expense against the operations of the Authority.

Capital assets are depreciated using the straight-line method over the following useful lives:

Land restoration	15 years
Utility system:	
Equalization basin and pump station	10-40 years
Sewage transmission lines	60 years
Equity in Ypsilanti Community Utilities Authority (YCUA)	40 years
Furniture and equipment	5-7 years

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2008 and 2007

Note 2 - Summary of Significant Accounting Policies (Continued)

Reclassifications - Certain items in the September 30, 2007 financial statements have been reclassified to conform to classifications used in 2008. These classifications had no effect on September 30, 2007 net assets, changes in net assets, or cash flows as previously reported.

Other accounting policies are disclosed in other notes to the financial statements.

Note 3 - Stewardship, Compliance, and Accountability

Budgetary Information - An annual budget is adopted on the modified accrual basis of accounting, which is a comprehensive basis of accounting used for governmental fund-type operations; it differs from accounting principles generally accepted in the United States of America for proprietary fund-type operations such as Western Townships Utilities Authority. The annual budget is prepared by the Authority's accountant and is adopted by the Authority's board of commissioners; subsequent amendments are approved by the Authority's board of commissioners.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operating expenditures to the budget adopted by the board of commissioners for the Enterprise Fund is included in the supplemental information.

There were no budget overruns at September 30, 2008 and 2007.

Note 4 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated three banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized the Authority to deposit and invest in all investments allowed by the state statutory authority as listed above. The Authority's deposits and investment policies are in accordance with statutory authority.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2008 and 2007

Note 4 - Deposits and Investments (Continued)

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At September 30, 2008, the Authority had \$642,465 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. At September 30, 2007, the Authority had no bank deposits that were uninsured and uncollateralized.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority's investment policy does not further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>2008 Fair Value</u>	<u>2007 Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pool:				
National City	\$ 841,000	\$ 806,000	Not rated	N/A
U.S. bank	313,188	353,347	Aaa	Moody's

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2008 and 2007

Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2008 was as follows:

	2007	Increase	Decrease	2008
Capital assets not being depreciated:				
Land	\$ 2,136,913	\$ -	\$ -	\$ 2,136,913
Construction in progress -				
Capital projects	1,414,171	11,164,493	(1,211)	12,577,453
Subtotal	3,551,084	11,164,493	(1,211)	14,714,366
Capital assets being depreciated:				
Land restoration costs	2,412,243	-	-	2,412,243
Utility system:				
Sewage transmission lines	44,036,594	-	-	44,036,594
Equalization basin and				
pump station	38,966,422	20,311	(47,726)	38,939,007
Equity in YCUA	88,078,682	32,744	-	88,111,426
Furniture and equipment	117,224	-	(1,060)	116,164
Subtotal	173,611,165	53,055	(48,786)	173,615,434
Less accumulated depreciation for:				
Land restoration costs	(2,211,222)	(160,816)	-	(2,372,038)
Utility system:				
Sewage transmission lines	(9,552,086)	(747,292)	-	(10,299,378)
Equalization basin and				
pump station	(12,919,250)	(1,429,020)	33,408	(14,314,862)
Equity in YCUA	(4,042,342)	(2,202,526)	-	(6,244,868)
Furniture and equipment	(78,560)	(14,923)	1,060	(92,423)
Subtotal	(28,803,460)	(4,554,577)	34,468	(33,323,569)
Net capital assets being depreciated	144,807,705	(4,501,522)	(14,318)	140,291,865
Total capital assets - Net of depreciation	\$ 148,358,789	\$ 6,662,971	\$ (15,529)	\$ 155,006,231

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2008 and 2007

Note 5 - Capital Assets (Continued)

Capital asset activity for the year ended September 30, 2007 was as follows:

	2006	Increase	Decrease	2007
Capital assets not being depreciated:				
Land	\$ 2,136,913	\$ -	\$ -	\$ 2,136,913
Construction in progress -				
Capital projects	<u>659,213</u>	<u>1,018,076</u>	<u>(263,118)</u>	<u>1,414,171</u>
Subtotal	2,796,126	1,018,076	(263,118)	3,551,084
Capital assets being depreciated:				
Land restoration costs	2,412,243	-	-	2,412,243
Utility system:				
Sewage transmission lines	43,540,414	496,180	-	44,036,594
Equalization basin and				
pump station	37,464,952	2,148,473	(647,003)	38,966,422
Equity in YCUA	87,880,321	198,361	-	88,078,682
Furniture and equipment	<u>117,224</u>	<u>-</u>	<u>-</u>	<u>117,224</u>
Subtotal	171,415,154	2,843,014	(647,003)	173,611,165
Less accumulated depreciation for:				
Land restoration costs	(2,050,406)	(160,816)	-	(2,211,222)
Utility system:				
Sewage transmission lines	(8,811,891)	(740,195)	-	(9,552,086)
Equalization basin and				
pump station	(12,006,169)	(1,560,084)	647,003	(12,919,250)
Equity in YCUA	(1,842,790)	(2,199,552)	-	(4,042,342)
Furniture and equipment	<u>(63,637)</u>	<u>(14,923)</u>	<u>-</u>	<u>(78,560)</u>
Subtotal	<u>(24,774,893)</u>	<u>(4,675,570)</u>	<u>647,003</u>	<u>(28,803,460)</u>
Net capital assets being depreciated	<u>146,640,261</u>	<u>(1,832,556)</u>	<u>-</u>	<u>144,807,705</u>
Total capital assets - Net of depreciation	<u>\$ 149,436,387</u>	<u>\$ (814,480)</u>	<u>\$ (263,118)</u>	<u>\$ 148,358,789</u>

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2008 and 2007

Note 5 - Capital Assets (Continued)

Construction Commitments - The Authority has two active construction projects at year end. The Lower Rouge equalization basin expansion project is to increase the storage capacity at the Lower Rouge facility. The Middle Rouge pump replacements are to replace the two remaining malfunctioning screw pumps. At year end, the Authority's commitments with contractors are as follows:

	Total Commitment	Spent to Date	Remaining Commitment
Lower Rouge equalization basin expansion	\$ 25,191,685	\$ 10,849,338	\$ 14,342,347
Middle Rouge pump replacements	76,508	46,506	30,002
Total	<u>\$ 25,268,193</u>	<u>\$ 10,895,844</u>	<u>\$ 14,372,349</u>

Note 6 - Due to Members - Billing Lookback

At September 30, 2008 and 2007, the amount due to (from) member townships is as follows:

	2008	2007
Operating activities:		
Monthly billings	\$ 12,384,674	\$ 11,659,841
Actual operating expenses - Net of interest earnings and planned working capital addition	<u>(11,769,037)</u>	<u>(11,756,702)</u>
Total operating activities	615,637	(96,861)
Debt activities:		
Debt invoiced to townships for 2001 bond issue	7,014,500	7,224,500
Debt invoiced to townships for 2002 bond issue	3,631,875	3,699,375
Semiannual principal and interest payments on debt	<u>(10,646,375)</u>	<u>(10,923,875)</u>
Total debt activities	-	-
Capital activities:		
Billed as part of the monthly invoices	11,183,593	3,419,316
Capital asset acquisitions with capital contributions	<u>(11,175,593)</u>	<u>(3,414,612)</u>
Total capital activities	8,000	4,704
Total billing lookback to (from) townships	<u>\$ 623,637</u>	<u>\$ (92,157)</u>

In addition, approximately \$313,000 and \$353,000 as of September 30, 2008 and 2007, respectively, was being held in trust. These amounts consist of unspent bond proceeds and amounts reserved to pay construction retainages related to the YCUA expansion project.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2008 and 2007

Note 7 - Long-term Debt

Long-term debt activity for the year ended September 30, 2008 was as follows:

	Beginning Balance	Current Year Reductions	Ending Balance	Due Within One Year
2001 General Obligation Bond, with interest rates from 3.50% to 5.25%, maturing through 2019 (used to fund WTUA collection system)	\$ 63,025,000	\$ (4,000,000)	\$ 59,025,000	\$ 4,500,000
2002 General Obligation Bond, with interest rates from 3.00% to 5.00%, maturing through 2023 (used to fund the YCUA plant expansion)	48,500,000	(1,500,000)	47,000,000	2,000,000
Less:				
Deferred amount on 2001 refunding	(3,211,925)	285,504	(2,926,421)	(285,504)
Unamortized bond issue costs on 2002 issue	(142,890)	9,370	(133,520)	(9,370)
Unamortized discount on 2002 issue	(388,120)	25,451	(362,669)	(25,451)
Total long-term debt	<u>\$ 107,782,065</u>	<u>\$ (5,179,675)</u>	<u>\$ 102,602,390</u>	<u>\$ 6,179,675</u>

Long-term debt activity for the year ended September 30, 2007 was as follows:

	Beginning Balance	Current Year Reductions	Ending Balance	Due Within One Year
2001 General Obligation Bond, with interest rates from 3.50% to 5.25%, maturing through 2019 (used to fund WTUA collection system)	\$ 67,025,000	\$ (4,000,000)	\$ 63,025,000	\$ 4,000,000
2002 General Obligation Bond, with interest rates from 3.00% to 5.00%, maturing through 2023 (used to fund the YCUA plant expansion)	50,000,000	(1,500,000)	48,500,000	1,500,000
Less:				
Deferred amount on 2001 refunding	(3,497,430)	285,505	(3,211,925)	(285,505)
Unamortized bond issue costs on 2002 issue	(152,260)	9,370	(142,890)	(9,370)
Unamortized discount on 2002 issue	(413,570)	25,450	(388,120)	(25,450)
Total long-term debt	<u>\$ 112,961,740</u>	<u>\$ (5,179,675)</u>	<u>\$ 107,782,065</u>	<u>\$ 5,179,675</u>

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2008 and 2007

Note 7 - Long-term Debt (Continued)

Debt Service Requirements

The annual principal and interest requirements to service all debt outstanding as of September 30, 2008 are as follows:

Years Ending September 30	Principal	Interest	Total
2009	\$ 6,500,000	\$ 4,835,750	\$ 11,335,750
2010	6,550,000	4,498,187	11,048,187
2011	7,000,000	4,157,500	11,157,500
2012	7,600,000	3,802,375	11,402,375
2013	8,000,000	3,411,625	11,411,625
2014-2018	48,500,000	10,404,375	58,904,375
2019-2023	21,875,000	2,456,251	24,331,251
Total	<u>\$ 106,025,000</u>	<u>\$ 33,566,063</u>	<u>\$ 139,591,063</u>

Interest

For the year ended September 30, 2008, interest incurred by the Authority totaled \$5,075,125. For the year ended September 30, 2007, interest incurred by the Authority totaled \$5,356,375.

Classification

Long-term debt that is due within one year has been classified as a non-current liability on the balance sheet since these obligations are not payable with the current resources of the Authority. The Authority will bill the member townships when bond payments are due.

Note 8 - Lease Commitment

The Authority has entered into an agreement with the Ypsilanti Community Utilities Authority (YCUA), under which the Authority obtains certain rights to use a portion of the treatment capacity of the YCUA wastewater treatment plant. This agreement requires a rental payment on November 17 each year through November 17, 2098.

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2008 and 2007

Note 8 - Lease Commitment (Continued)

Annual payment requirements for the above are as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2009	\$ 757,353
2010	732,445
2011	705,969
2012	677,947
2013	648,309
2014-2018	2,747,979
2019-2023	1,815,663
2024-2028	1,253,349
2029-2033	1,048,311
2034-2038	806,672
2039-2043	523,279
2044-2048	414,414
2049-2053	438,601
2054-2058	462,789
2059-2063	486,976
2064-2068	511,164
2069-2073	535,351
2074-2078	559,539
2079-2083	583,726
2084-2088	607,914
2089-2093	632,101
2094-2098	656,289
2099	134,160
Total	<u>\$ 17,740,300</u>

Western Townships Utilities Authority

Notes to Financial Statements September 30, 2008 and 2007

Note 9 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for medical benefits provided to employees and workers' compensation and participates in the Michigan Municipal Risk Management Authority State Pool for claims relating to property loss and torts. Settled claims relating to the commercial insurance have not exceeded the amount of insurance in any of the past three years.

The Michigan Municipal Risk Management Authority State Pool operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Defined Contribution Retirement Plan

The Authority provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the personnel policies manual, the Authority contributes 15 percent of employees' gross earnings and employees contribute 5 percent of earnings. Employees are 100 percent vested after a period of five years. In accordance with these requirements, for the fiscal years ended September 30, 2008 and 2007, the Authority contributed approximately \$25,500 and \$24,600, respectively.

Note 11 - Contingency

The Authority is currently involved in arbitration regarding wastewater treatment charges with the Ypsilanti Community Utilities Authority (YCUA). The focus of the arbitration is to only charge the Authority for its share of the cost of retiree health care earned during the time period in which the Authority participated in using the plant, rather than sharing in the contributions to a retiree healthcare plan, which would include prior service costs for periods before the Authority started using the plant. Based upon an actuarial valuation allocating the prior service costs, it is estimated that the amount in dispute is over \$4,000,000, which would be allocated to the Authority over 30 years. These financial statements do not include any liability, if any, for the potential ultimate outcome of the arbitration.

Supplemental Information

Western Townships Utilities Authority

Schedule of Operating Expenditures Budget and Actual Year Ended September 30, 2008

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Sewage Treatment Charges	<u>\$ 9,872,403</u>	<u>\$ 9,872,403</u>	<u>\$ 8,969,957</u>	<u>\$ 902,446</u>
Operation and Maintenance Costs	<u>\$ 1,869,447</u>	<u>\$ 1,869,447</u>	<u>\$ 1,545,658</u>	<u>\$ 323,789</u>
Administrative Costs	<u>\$ 579,271</u>	<u>\$ 579,271</u>	<u>\$ 507,753</u>	<u>\$ 71,518</u>
Sewage Capacity Rental Costs	<u>\$ 780,672</u>	<u>\$ 780,672</u>	<u>\$ 780,672</u>	<u>\$ -</u>

The above schedule represents operating expenditures for the year based on the modified accrual basis of accounting, to be consistent with the basis of accounting used in the preparation of the budget.

Western Townships Utilities Authority

Schedule of Indebtedness September 30, 2008 and 2007

Limited Tax General Obligation Bonds

2001 Bond Issue (original principal \$74,350,000)

Interest Rate (Percent)	Date of Maturity	Principal Debt Outstanding		Annual Interest Payable
		September 30		
		2008	2007	
5.25	2008	\$ -	\$ 4,000,000	\$ 3,014,500
5.25	2009	4,500,000	4,500,000	2,791,375
5.25	2010	4,550,000	4,550,000	2,553,812
5.25	2011	5,000,000	5,000,000	2,303,125
5.25	2012	5,100,000	5,100,000	2,038,000
5.25	2013	5,500,000	5,500,000	1,759,750
5.25	2014	6,000,000	6,000,000	1,457,875
5.25	2015	6,200,000	6,200,000	1,137,625
5.25	2016	6,500,000	6,500,000	804,250
4.75	2017	6,800,000	6,800,000	472,125
3.50	2018	7,000,000	7,000,000	188,125
3.50	2019	1,875,000	1,875,000	32,813
Total 2001 Issue		59,025,000	63,025,000	18,553,375

Western Townships Utilities Authority

Schedule of Indebtedness (Continued) September 30, 2008 and 2007

Limited Tax General Obligation Bonds (Continued)

2002 Bond Issue (original principal \$51,325,000)

Interest Rate (Percent)	Date of Maturity January 1	Principal Debt Outstanding		Annual Interest Payable
		September 30		
		2008	2007	
5.00	2008	\$ -	\$ 1,500,000	\$ 2,131,875
5.00	2009	2,000,000	2,000,000	2,044,375
5.00	2010	2,000,000	2,000,000	1,944,375
4.00	2011	2,000,000	2,000,000	1,854,375
4.00	2012	2,500,000	2,500,000	1,764,375
5.00	2013	2,500,000	2,500,000	1,651,875
4.00	2014	3,000,000	3,000,000	1,529,375
4.25	2015	3,000,000	3,000,000	1,405,625
4.25	2016	3,000,000	3,000,000	1,278,125
4.25	2017	3,500,000	3,500,000	1,140,000
4.25	2018	3,500,000	3,500,000	991,250
4.375	2019	3,500,000	3,500,000	840,313
4.50	2020	4,000,000	4,000,000	673,750
4.50	2021	4,000,000	4,000,000	493,750
4.75	2022	4,000,000	4,000,000	308,750
4.75	2023	4,500,000	4,500,000	106,875
Total 2002 Issue		47,000,000	48,500,000	20,159,063
Total Limited Tax General Obligation Bonds		\$ 106,025,000	\$ 111,525,000	\$ 38,712,438



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Results of the Audit Process

December 18, 2008

To the Commissioners
Western Townships Utilities Authority

We have audited the financial statements of Western Townships Utilities Authority (the "Authority") for the year ended September 30, 2008 and have issued our report thereon dated December 18, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our audit engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Western Townships Utilities Authority. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our telephone discussions about planning matters on December 16 and 18, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Western Townships Utilities Authority are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year.

We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the evaluation of the likely outcome of its arbitration proceedings with YCUA. If the actual result of the proceeding is unfavorable to WTUA, it may have to incur higher costs than those reported in the current financial statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatement

There were no corrected or uncorrected misstatements identified as part of the audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated December 18, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the Authority, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Authority, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Authority's auditors.

This information is intended solely for the use of the Board of Commissioners and management of Western Townships Utilities Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in dark ink, appearing to read "Joseph C. Heffernan". The signature is fluid and cursive, with the first name "Joseph" and last name "Heffernan" clearly legible.

Joseph C. Heffernan